

## Report of the Directors

The directors would like to present their report together with the audited accounts for the year ended 31st March, 2003.

### **PRINCIPAL ACTIVITIES AND SEGMENT ANALYSIS OF OPERATIONS**

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 12 to the accounts.

An analysis of the Group's performance for the year, which arose mainly in Hong Kong, by business segments is set out in note 2 to the accounts.

### **RESULTS AND APPROPRIATIONS**

The results for the year are set out in the consolidated profit and loss account on page 16.

The directors have not declared any interim dividend and do not recommend the payment of a final dividend.

### **RESERVES**

Movements in the reserves during the year of the Group and the Company are set out in the consolidated statement of changes in equity on page 20 and note 21 to the accounts respectively.

### **DISTRIBUTABLE RESERVES**

Distributable reserves of the Company as at 31st March, 2003, calculated in accordance with section 79B of the Hong Kong Companies Ordinance, amounted to HK\$173,411,000 (2002: HK\$182,457,000).

### **FIXED ASSETS**

Details of the movements in fixed assets are set out in note 10 to the accounts.

### **FIVE YEAR FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 49.

**MAJOR CUSTOMERS AND SUPPLIERS**

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

**Purchases**

— the largest supplier	21%
— five largest suppliers combined	54%

**Sales**

— the largest customer	2%
— five largest customers combined	4%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

**DIRECTORS**

The directors during the year and up to the date of this report are:

Mr. Yeung Ping Leung, Howard  
 Mr. Tang Yat Sun, Richard  
 Mr. Cheng Kwai Yin  
 Dr. Ho Tim  
 Dr. Sin Wai Kin  
 Mr. Cheng Ka On, Dominic  
 Mr. Yeung Bing Kwong, Kenneth  
 Ms. Fung Chung Yee, Caroline  
 Mr. Lau To Yee  
 Mr. Cheng Kar Shing, Peter  
 Mr. Wong Wei Ping, Martin

Brief biographical details of the directors are set out on pages 5 and 6.

In accordance with Article 116 of the Company's Articles of Association, Messrs. Tang Yat Sun, Richard, Cheng Ka On, Dominic, Cheng Kar Shing, Peter and Wong Wei Ping, Martin will retire by rotation at the coming annual general meeting of the Company and, being eligible, have offered themselves for re-election.

The independent non-executive directors during the year were Messrs. Cheng Kwai Yin, Lau To Yee and Cheng Kar Shing, Peter. They are not appointed for a specific term as they are subject to retirement by rotation and re-election at annual general meeting in accordance with Article 116 of the Articles of Association of the Company.

None of the directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## Report of the Directors *(Continued)*

### DIRECTORS' INTERESTS

At 31st March, 2003, the interests of the directors and their associates in the issued ordinary shares of HK\$0.25 each of the Company as recorded in the register maintained by the Company under section 29 of the Securities (Disclosure of Interests) Ordinance were as follows:

	Number of ordinary shares held			Total
	Personal	Family	Other	
Mr. Tang Yat Sun, Richard	3,585,000	Nil	Nil	3,585,000
Mr. Cheng Kwai Yin	2,224,000	Nil	255,000*	2,479,000
Dr. Sin Wai Kin	1,792,500	Nil	Nil	1,792,500
Mr. Cheng Ka On, Dominic	4,020,000	15,000	Nil	4,035,000

\* These shares are held in trust by Mr. Cheng Kwai Yin and his brother for the estate of their mother.

The Company had not granted to the directors (including their respective spouses and children under 18 years of age) any rights to subscribe for shares of the Company during the year.

During the year the following contracts in which the Group was a party subsisted:

1. The premises occupied by the Group in King Fook Building, Des Voeux Road Central, Hong Kong are leased on normal commercial terms from Stanwick Properties Limited, which is a wholly owned subsidiary of Yeung Chi Shing Estates Limited, a substantial shareholder of the Company.

The Company has also entered into a licence agreement with Yeung Chi Shing Estates Limited pursuant to which the Company was granted an exclusive right for the design, manufacture and distribution of gold and jewellery products under the trademark of "King Fook" on a worldwide basis for a total consideration of HK\$1. The contract commenced from 7th December, 1998 and does not fix the termination date.

Mr. Yeung Ping Leung, Howard and Mr. Yeung Bing Kwong, Kenneth are directors of Yeung Chi Shing Estates Limited. These directors together with other members of their family have a controlling interest in Yeung Chi Shing Estates Limited.

2. King Fook Jewellery Group Limited occupies shop premises on the ground and first floors of Miramar Hotel which are leased from Contender Limited, a wholly owned subsidiary of Miramar Hotel and Investment Company, Limited (a substantial shareholder of the Company), on normal commercial terms. Mr. Tang Yat Sun, Richard, Dr. Ho Tim, Dr. Sin Wai Kin and Mr. Cheng Ka On, Dominic are directors and shareholders of Miramar Hotel and Investment Company, Limited. Mr. Yeung Ping Leung, Howard is a director of Miramar Hotel and Investment Company, Limited.
3. The Company has entered into a consultation service agreement with Verbal Company Limited ("Verbal"), whereby Verbal provides consultation services to the Group for the year ended 31st March, 2003 at fees totaling HK\$1,440,000. Mr. Yeung Ping Leung, Howard and Mr. Tang Yat Sun, Richard are directors of Verbal and Mr. Yeung Ping Leung, Howard has a beneficial interest in Verbal.

**DIRECTORS' INTERESTS** (Continued)

4. The Group has borrowed an unsecured short term loan of HK\$20,000,000 from a director of the Company during the year. The loan is repayable on demand. Interest was charged on the loan at 2% to 2.5% per annum.

The above transactions constitute connected transactions as defined under chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). Details of these transactions are also shown in note 26 to the accounts.

Apart from the foregoing, no other contracts of significance in relation to the Company's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

**DIRECTORS' INTERESTS IN COMPETING BUSINESS**

Set out below is information disclosed pursuant to rule 8.10 of the Listing Rules:

Mr. Cheng Kar Shing, Peter, an independent non-executive director of the Company, is a director of Chow Tai Fook Jewellery Co. Ltd. ("Chow Tai Fook"). The gold ornament, jewellery and watch retailing business of Chow Tai Fook may compete with similar business of the Group.

Dr. Sin Wai Kin is the chairman of Myer Jewelry Manufacturer Limited. The trading of fine and costume jewellery business of Myer Jewelry Manufacturer Limited and its subsidiaries ("Myer Group") may compete with similar business of the Group.

Mr. Tang Yat Sun, Richard is a director of Hang Seng Bank Limited ("Hang Seng"). The bullion trading, securities broking and money changer business of Hang Seng may compete with similar business of the Group.

The Group has experienced senior management independent of the above-named directors to conduct its business and so is capable of carrying on its business independently of and at arm's length from the respective businesses of Chow Tai Fook, Myer Group and Hang Seng.

**BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS**

Particulars of bank loans, overdrafts and other borrowings of the Group are set out under current liabilities of the consolidated balance sheet and note 22 to the accounts.

## Report of the Directors *(Continued)*

### SUBSTANTIAL SHAREHOLDERS

At 31st March, 2003, the register of substantial shareholders maintained under section 16(1) of the Securities (Disclosure of Interests) Ordinance showed that the Company had been notified of the following substantial shareholders' beneficial interests in 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors.

Name of shareholder	Number of ordinary shares held
Yeung Chi Shing Estates Limited	193,145,055
Miramar Hotel and Investment Company, Limited	67,912,000

### PURCHASE, SALE OR REDEMPTION OF SHARES

The Company had not redeemed any of its shares during the year.

Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the year.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

During the year under review, the Company was in compliance with the Code of Best Practice as set out in appendix 14 of the Listing Rules except that:

1. the directors have not established an audit committee to review and supervise the Group's financial reporting process and internal controls; and
2. the independent non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the Company's Articles of Association.

### AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Yeung Ping Leung, Howard**  
*Chairman*

Hong Kong, 11th July, 2003